City of Gahanna

200 South Hamilton Road
Gahanna, Ohio 43230

Meeting Minutes

Finance Committee

Michael Schnetzer, Chair
Karen Angelou
Merisa Bowers
Brian Larick
Jamie Leeseberg
Nancy McGregor
Stephen Renner

April Beggerow, MPA, CMC, Clerk of Council

Monday, October 26, 2020 **Virtual Meeting**

Immediately Following Committee of the Whole
Meeting Call in Details: 513-306-4583

Conference ID: 528 010 580#

A. CALL TO ORDER

Chairman Schnetzer called the Finance Committee to order at 8:15 p.m. All Council members were in attendance.

B. PRESENTATION FROM DIRECTOR OF FINANCE

ORD-098-2020 AN ORDINANCE TO MAKE APPROPRIATIONS FOR CURRENT EXPENSES AND OTHER EXPENDITURES OF THE CITY OF GAHANNA, OHIO DURING THE FISCAL YEAR 2021.

Mr. Schnetzer introduced the presentation of the 2021 Budget.

Mayor Jadwin: Actually, I'm going to jump in and preempt her for a minute if I could. Just a few introductory comments, I appreciate everybody's latitude in that regard. We have been very much looking forward to sharing the introduction and presentation of the 2021 budget with you tonight. Our entire leadership team believes that our residents, our employees and certainly our council deserve to hear the details of the budget,what we are presenting, how we are presenting it, why we are presenting it, and what went into formulating the budget that we have. This is not been a typical year and this is not a typical budget. There are many new variables that have impacted the 2021 budget that we're about to present. Just a year ago we were just coming out of a financial crisis for the city and we had hope with the passage of Issue 12 and we were beginning to see an increase in issue 12 dollars, certainly toward the end of last year and the beginning of this year, and then COVID hit. We responded to COVID-19 early on and immediately by putting an immediate pause button on projects and in hiring, really because we just did not know what was happening. We had shutdowns. We had to stay at home orders. We did not know what we were facing. It was this big, unknown, cavernous hole that we were walking into and we had no information. And now we're eight months into it. And while there still certainly are uncertainties ahead, I do think we have been able over the last eight months to to see trends, to gather data and to better plan for the future. And what we've gone through the last eight months, one of the other variables that have impacted this budget is again issue 12. I cannot overstate the positive impact that Issue 12 has had on this city and on this budget. I truly believe that had it not been for issue 12, we would have a for sale sign in front of city hall at this point. And for those of you who are around last year, I think you know that that probably is the case. And I would like to reiterate once again how extremely grateful we are for the citizens who led that initiative. And for the 81% of our voters who passed Issue 12. We would not have been able to do any of the services and projects that we provided this year had it not been for issue 12 dollars, whether it was street programs, sewer projects, supporting our police department and replacing officers who were retiring to being able to offer creative programming, recreational programming that was repurposed for COVID-19, all of those things were possible because of issue 12 dollars and we otherwise would likely have already had to dip into the emergency fund balance just to continue operations by this point. As we present this year's budget, I would like to reiterate that our focus has been and remains on the fundamental purpose of government, which is to return taxpayer dollars through providing core services. Core services that focus on the public health, safety and welfare of our residents. I think sometimes we forget how big we are as a community. I'll be curious to see what the census results come out later this year, but at last count we had 36,000 plus residents and we are a mid-sized suburb of the 14th largest city in the nation. With that, there is great demand for services and the pandemic has put an even greater demand on the services that we are required to provide. Residents being at home, the amount of refuse and recycling pick up has increased, water usage, sewer issues and a heightened awareness around the condition of our sidewalks and our streets as our residents now spend more time outside walking. And it really gives them an opportunity to see the environment that they have. And also similarly, our parks and our trails, making sure that we have well maintained and accessible parks and trails for residents became a priority and will continue to be a priority as our residents look to the outdoors to look for socially distant and safe ways to deal with COVID-19. I am happy to share, as you will hear shortly, that capital maintenance is fully funded under this budget, along with a handful of improvements, again, thanks to special revenue funds. In 2021, our main focus will be on continuing to rebuild the staff that we had in 2018 so that we can effectively deliver the services that our residents both need and want. And just, I don't think I have to remind all of you, is what we suffered from a staffing standpoint in 2019, there were positions, many, many positions that were unfilled at the start of this year and we were just beginning to fill those positions again when COVID-19 hit. So, we will remain focused on rebuilding, though the steps may be a little bit smaller than we otherwise would have intended or been able to do had it not been for COVID-19. Our director of finance is a former state auditor with a great deal of experience and I have always had respect for her, but certainly over the last several months, as we have worked on this budget, I really have a tremendous amount of respect for the work that she has done in shepherding this city through the financial crisis that it has been through in prior years with your help and your input as council members. And I have no doubt that she will continue to give us the guidance that we need. I would like to thank her for all of the work that she's done in putting this budget together. And she's about to present to you tonight, as well as to all of our Directors and the members of our senior leadership team. We've been working on this budget for the last three months. There have been many discussions, meeting after meeting. We we put a budget together, we cut. We looked at it again, we cut some more. We re-evaluated, re-evaluated and re-evaluated and reevaluated more. We've gone through multiple iterations of this budget to come up with what we're about to present to you tonight. And I believe that we have settled on a budget that really strikes the conservative balance between rebuilding and being able to offer our residents, again, the services that they both need and want, and to do so in a fiscally responsible way, in an environment that will be challenging for us in 2021 and perhaps longer. So with that, I'd like to turn the floor over to our finance director, Joanne Bury. Thank you.

Ms. Bury: Presentation slides attached. So we're going to focus mainly on the general fund as the city's main operating fund, and again, and talk about the assumptions that we kind of use to build upon what that impact is on our general fund balance and then we're going to look at that five year forecast and what it could mean for the general fund. And then we're just going to focus on a handful of other funds, mainly those that receive the one percent of income tax. So we're going to start with income tax. It is the main revenue source for the general fund and represents 76% of total revenue. What we did to come up with a five year estimate was we looked at a couple of things. The first thing is where are we as of the end of September. When COVID initially hit, we got busy doing some initial projections to figure out based on what our economic base is and where we felt the majority of this pandemic was going to hit, where do we think our exposure was and what kind of revenue loss could we expect when

when that first came about. So we had assumed a 10% decline, and as of the end of September we are at a decline of about 9.5%, so very close to what we had projected for 2020. We're also looking at the infection rates, which are rising, and then we're also looking at Federal Reserve policy. So as many of you may know, the Federal Reserve basically established a 0% interest rate environment for the next three years. What this signifies is that there's no expectation for recovery or growth during the next three years. We're also still looking at those economic trends. And right now, those industries that were hit hard in the beginning are still being hit fairly hard. Hospitality, lodging, retail, beauty and personal care, tourism, again, not a big part of our economic base, but we still see reductions from those businesses. We also look at 2008, the Great Recession. This is a different type of economic downturn, but when you look at the trends and it is the most recent significant economic downturn, so there's really nowhere else to look to see what might be the outcome as this pandemic plays out. In looking at the 2008 recession, the worst impact that the city had was in 2009. It was almost a 7% decrease in income tax revenue, followed in 2010 by approximately 5%. And then recovery kind of began in 2011. Again, this is slightly different, different circumstances, but based on the information that we have at hand, we are anticipating an additional 8% reduction for 2021, followed by 0% growth through 2023 kind of mirroring that Federal Reserve policy and then starting of the small recovery of 2% into 2024 and 2025, 2% for each of those years. So you can see on the graph to the right kind of what that trend looks like through 2025.

Next, we're just going to talk about the other revenue sources and not all of them, just those that are kind of next in line versus the big income tax, again, as the 76% piece. So the next largest is property tax revenue. We get this estimate from the county auditor and it's staying relatively flat for 2021 at about 1.69 million. Again, not a significant source of revenue, but still one of the largest next to income tax. We don't see any impacts on property values at this point from COVID-19. But the county is currently conducting the triennial appraisal for collections in 2021 and a six annual appraisal will be conducted in 2023 for 2024 tax collections. When those appraisals are done, we'll be able to see, has there been any impact on property values from COVID-19 right now I'm not anticipating any. So, basically leaving it at at a modest 2% increase each year. And then for that six annual reappraisal kind of mirroring what happened in 2017, we saw a 13% increase in 2018. So assuming probably around a 10% increase in 2024. The next stream of revenue, was charges for services, so you'll notice when you're kind of looking through the book, you're going to kind of see this trending down and that's just the ability to move certain Parks and Rec divisions over to the new Parks and Rec Special Revenue Fund. So the whole activity gets moved, the associated fees that are charged along with the associated expenditure, it's still a net positive for the general fund. They're no longer subsidizing those programs. But just when you look at the trending, it may look a little odd when you're looking at comparative data. So just kind of looking at what still is in the general fund for charges for services. We have an administrative charge where we charge the proprietary funds for services being provided by the general fund. This is based on proprietary revenue, which is anticipated to go up. So we're also anticipating an increase here, about $76,000. If you may remember, from the last budget cycle, we reduced what we're charging the proprietary funds by about 50%, and this was two fold. One, there needs to be a rate study conducted. It was planned to happen in 2020. But because of COVID, we just couldn't get that going. And also, we don't want to create large increases in utility rates. So beyond 2021, I'm assuming it to go back to the normal. But once we have that rate study, there could be significant changes to these charges. Next, we have the park rentals, so this is just for the parks and facilities division. This was impacted pretty hard by COVID-19. We revised revenue down to $48,000 for 2020 going into 2021 we think there still will be some impacts just as we're continuing to deal with the public health crisis and in trying to learn how to to navigate in the new world. So we are estimating revenue of $120,000 for each year. It's a little bit below pre-pandemic. But again, knowing that these items will still have some some impact from the from COVID-19. We also have the Creekside rent. So this is part of the lease agreement and it's based on rentable square footage and occupancy. We do know that there are quite a few businesses in the Creekside area that are struggling, but we won't know really what is the true impact on Creekside, probably for another year or two. So if that occupancy drops, the rent will also drop. Because we don't have enough information at hand at this point we're leaving it at 2020 levels or $136,000. Then we have two small charges for services that are for public safety and fleet for services that they're providing to others. The last two revenue sources that I want to talk about for the general fund, and these are the next two in line, is intragovernmental revenue. For the general fund, this mainly consist of the local government fund, which is based on the health of the state's general revenue resources. Since 2011, we've seen a 60% reduction here based on allocation changes made by the state. And that was all related to the recession. We're not sure yet what impact COVID-19 is going to have on state revenue resources. The county auditor has estimated for 2021 approximately the same amount of local government funds as 2020 $675,000 in 2020 and they're estimating $673,000 for 2021. Beyond 2021 it's kind of hard to determine. So basically the same with some other areas just leaving it flat for now until more information is known. The one area that we do know will be impacted significantly is investment income. While that's not the main purpose of investing governmental funds, it still is a revenue source that we rely on. So for 2021, we're expecting about $318,000. And that's a reduction of about $566,000 or 64% percent. This is based on current holdings, yields and maturities. And it's not only because of the reduction in interest rates that's driving this, but there's also a lack of inventory out there to reinvest in. So moving beyond 2021, we're looking to struggle in this at least until 2024, so looking at a decline of about 43% in 2022, 12% in 2023. And then looking at a pretty good recovery in 2024 and 2025. But when you're looking at that 29% and 50% and looking at what we're losing in the first three years, it basically puts us back at that 2021 level. So don't see investment income recovering until beyond 202*. So those are kind of the main areas that we looked at for revenue for the general fund.

Now we're going to talk about the expenditure side. So the three major areas for general fund expenditures are salaries and benefits, contract services and materials and supplies. Salaries and benefits are based on negotiated agreements on classified employee ordinances. We have some changes to insurance premiums and we also have some insurance plan design changes. We also look at our staffing levels and what services we do need to provide. And do we have the human capital in line to provide those services at an appropriate level. Contract services are based on known or anticipated contracts with third parties. The city does contract quite a few services. I listed some, but this is not an all inclusive list. So we have the income tax, administrative services or what we pay to RITA, public safety or 9-1-1 services, our technology software solutions, the public health contract that was just passed, mosquito spraying, fleet management services, and building maintenance services. Again, not not inclusive list, but those are some of the biggies that are in there. For materials and supplies you basically have your historical trends and what you're looking for planning for the upcoming year. There also might be some inflation built in. But for for this particular budget, we we mainly left everything to the extent that we could flat through the outyears. So this is the general fund request for expenditures and we'll look at the revenue in total here in a minute, but this is kind of where we're looking so that the 2020 revised appropriations is with the reductions from COVID-19 already included. So moving into 2021, we're looking at only requesting to increase that budget by $288,000. I'm going to hit on the salaries and benefits piece and then we'll kind of work into contracts and materials and supplies a little bit. So within that, at 1.5 Increase from the previous page, this is kind of what it consists of. So we do have the negotiated pay increases that are required by the union contracts. We also are looking at a stepped unclassified pay increase of 1.5% In January and another 1.5% in July. This kind of doesn't take a full increase at once and provides a little bit of of relief. In total for all of these things, the union increases and the unclassified kind of stuff pay increase is a total of $412,000. I also mentioned the insurance premiums. So for union employees, it'll be a 5.5% increase. We are doing plan design for non-union employees and our hope is that some of the union employees also opt for this plan. It's a high deductible health care plan with a health care savings account. What this does is it decreases premiums by 13%. And then what we're doing with that savings for the first year is helping to fund those health care savings accounts. The net effect of the premium reduction in assisting with the funding of the health care savings for the first year is a 0% increase over 2020 costs. So the net change for all this is about $310,000. You also heard the mayor mention the fact that we had a number of positions coming into 2020 that we had planned on filling. We were looking to rebuild. COVID-19 hit. We were uncertain of even how we were going to operate or what was going to be operational. So we we made the decision to do a hiring freeze. It is apparent that we need these positions. So a portion of the request is to fund those 2020 positions that we opted not to fill. It adds back in $309,000 compared to the 2020 budget. We also were not adequately staffed, even with filling the vacancies. We we knew that we needed to to look at some reorganization also in some departments. So we're looking at some additional staff and some reorganizations to help us run more efficiently and provide those critical services to ensure public safety, health and welfare. This results in about a $475,000 increase and wanted to know that we're still below 2018 levels, which was the last kind of full year of staffing.

So for contracts and services and materials and supplies, so this is also where we were able to look to that 25%. So the general fund had a reduction. In income tax revenue. And the three special revenue funds actually are bringing in more than anticipated, as you might remember, we had planned on receiving about 65% of the estimated increase, which is based on some data that we had looked at. And we're really closer to receiving 100% of that 1%. Also in the Parks and Rec fund, if you remember, appropriations for 2020 were reduced due to the cancellation of programs and activities. So we had a couple of things. We have revenue overproducing in these special friends and we have expenditures that were less than planned due to some cancellations and closures. So we have some resources available in all three of those funds to account for some activity that would normally be in a general fund. It's truly our policy to use those restricted resources first. When you have an activity that can be paid from both, you want to use those restricted dollars to avoid unnecessary accumulation of funds that could be used for specific activities. The one that I always like to kind of point to as an example is the court building ** fund, it just continues to build and build and build and build. It can only be used to build or improve a courthouse. Not enough in there to really do anything with. So it just continues to accumulate. So what does this mean, all the revenue and the appropriations? So in total, we're planning on bringing in about $22 million and plan and spending about $24 million. So the remainder of the expenditures or the planned appropriations, we're requesting that unreserved general fund balance be used to cover those remaining costs. Now, what does that mean for fund balance? We will look at that now.

So this is something I provided last year. We're planning on having an ending fund balance of about $13.2 million. We calculated the emergency reserve to be about $5.8 million. So that leaves us a net unreserved fund balance of about $7.4 million. If we use $2.2 million of that to cover the operational costs, we still have a remaining unreserved fund balance of about $5.1 million. One month is about $2 million. We're looking at two months of operations is about four. So we're still left with unreserved fund balance in excess of two months and two months is the kind of the best practice school. Again, I want to reiterate that the loss in revenue due to COVID-19 does not eliminate the need to provide services. On the contrary, it puts even more demand on the city for services. And using unreserved fund balance is an acceptable means to weather the economic impact. Ohio Revised Code also defines your resources for appropriation in this planed revenue plus unreserved fund balances may be carried forward. You know, as the mayor mentioned, it's our fundamental job to return taxpayer dollars in the form of services and using unreserved fund balance does that also.

So this is this is kind of ugly. So this is our five year forecast kind of taking all those assumptions that we talked about previously and laying them out in that five year time frame. So for 2021, you're looking at $3.3 million less in income tax revenue compared to 2019 actual collections. Now, this is the the accumulation of the 10% that we're anticipating for 2020 plus the 8% reduction for 2021. And then we're looking at holding that or not being able to recoup any of that until probably 2024 at the earliest. So we're going to continue to feel the strain on the general fund. And looking at that unreserved balance picture, it just may not be enough and we may need to look to the emergency reserve to just continue providing basic services. We kind of alluded to this early on when we did the projections for 2020. I do still have the fund balance policy as a to-do definitely as we're moving into 2021 to give counsel in the administrative administration, you know, adequate time to, to draft the policy, get input and find something that both sides are comfortable with when we're looking at general fund reserves and unreserved balance and how to best use it.

So that kind of is the summation of the general fund. Now, I just wanted to kind of hit highlights on the other funds that receive the income tax. So the capital improvement fund is estimated to receive about $7.5 million income taxes, fully funds all capital maintenance in the amount of $6.9 million. And we have a handful of new improvements of about $4.4 million. When you go to the book, this will be in the capital improvement sections and it has all the related the project sheets that follow behind. I'm looking at the public safety fund looking to receive about $1.2 million in revenue, income tax is estimated to be about $968,000. This, along with unreserved fund balance, continues to pay for the school resource officers program. And it will cover pension costs in excess of the property tax revenue received for it. So if you remember, a portion of our inside millage is used for police pension cost and of course, it cannot cover the full amount. Typically, this would be transferred from the general fund. But since this is a public safety expense, it meets the requirements as far as what this 25% can be used for. So we will be paying for the portion of pension costs in excess of the property tax with a transfer from this fund into the police pension fund. Parks and Recreation anticipated to receive about $1.7 million in revenue with $447,000 in income tax, so this along with unreserved fund balance, is going to fund the recreation programming and activities, camps, both the pools, senior center and the golf course. When we looked at charges for services revenue, except for the golf course, which is faring well, the other programs, again, we knew would have some sort of impact from COVID-19. So they were set at responsible level set below previous pre pandemic estimates. But still, assuming that we're going to be able to do a full year of programming, it just may be a little different or maybe scaled back. But similar programming to what we done in the past, but taking measures for the pandemic. On the public service side, estimated to receive $1.66 million in revenue with one million in income tax revenue, this along with unreserved fund balance funds, the engineering division, parking garage, and general services division of the public service department.

So with that, I hope that this kind of gives you a base for going into the book, kind of understanding what we kind of looked at, the majority of this information is repeated within the book in various sections, and there's definitely more detail behind the staffing requests. What reorganizations we took. Definitely look forward to addressing questions and listening to Council and citizen feedback. For this year. We are requesting that all questions, concerns and suggestions go to the Finance Chair and then he is going to coordinate delivery to the administration for responses. And with that, that concludes my presentation.

Mr. Larick asked about the additional revenues going into the funds.

Ms. Bury replied that for the public safety fund it was the SRO contract payment from the schools and then for the Parks and Recreation department it is all of the facilities affected - gate fees, camp registrations, payments for activities. For engineering it is fees associated with permitting.

Mrs. Angelou asked if the open checkbook was still in existence.

Ms. Bury said it was but she hasn't had the staff to work on it.

Mrs. Angelou asked how far behind we were on it.

Ms. Bury replied she wasn't sure.

Mr. Schnetzer said 2018, he was looking at it the other day.

Council determined that the meetings would return to the pre-Covid Schedule with Regular Council meetings on the first and third Monday of the month and Committees the second and fourth Mondays. Council members will be sending questions to Mr. Schnetzer and he will collect the questions and deliver them to the administration for answers.

Referred to: Public Hearing/City Council

C. ADJOURNMENT